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CAFII ALERTS WEEKLY DIGEST: September 30 – October 4, 2024

October 4, 2024

The CAFII Alerts Weekly Digest is intended to provide a curated compendium of news on insurance, regulatory, and industry/business/societal topics of relevance to CAFII Members – drawn from domestic and international industry trade press and mainstream media – to aid in Members' awareness of recently published media content in those areas.

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GOVERNMENT/LEGAL/REGULATORY/BUSINESS DEVELOPMENTS

OSFI Head Reflects On Decision To Relax Mortgage Stress Test Rule

The Regulator Wants To Be Perceived As Only Dealing With Financial Institutions, Not Individuals

By Ian Bickis, Investment Executive, October 3, 2024

https://www.investmentexecutive.com/news/from-the-regulators/osfi-head-reflects-on-decision-to-relax-mortgage-stress-test-rule/

The recent decision by Canada's banking regulator to relax a mortgage stress test rule was shaped in part by concerns about public perception of the agency, said Office of the Superintendent of Financial Institutions head Peter Routledge.

Speaking at Global Risk Institute summit on Wednesday, Routledge said he was worried that the requirement by lenders to run the "OSFI stress test" is making Canadians feel the regulator is too directly involved in their affairs.

"If I were that person, I would feel regulated by OSFI. And that's what we hear from Canadians. And I don't think that was ever part of its intent."

The concern helped lead to OSFI's announcement last week that starting Nov. 21, it would no longer require a stress test for uninsured mortgages when borrowers are making a straight switch between lenders, meaning they aren't changing things like their amortization or borrowing amount.

Only between 2% and 6% of borrowers make such a switch, so while it was something Routledge previously maintained was part of sound underwriting practices, the agency no longer saw it as worth the cost.

"It wasn't a big enough prudential risk to justify that appearance of unfairness," he said.

The removal of the stress test requirement comes as the regulator is also looking at a broader switch away from the B-20 stress test on individual borrowers, to a system that would regulate mortgage risk at a bank portfolio level.

The regulator will next year be testing the alternative system, which sets limits on how much of a bank's loan book can be taken up by borrowers with a high loan-to-income ratio. The regulator will then decide whether to add it to the current mortgage rules, or replace the existing stress test.

While the new system would similarly limit concentration of risk, or even do a bit of a better job, it would also have the benefit of seeming to be less directly applied at the specific borrower level, said Routledge.

"I think OSFI will sacrifice less confidence and credibility if we stick to our knitting, and only deal with the financial institutions as opposed to being perceived to deal with individuals."

OSFI's decision to relax its mortgage rules came shortly after the federal government also eased lending rules, including increasing the price cap on insured mortgages and expanding eligibility for 30-year amortizations. But Routledge said that he felt only public, not political, pressure to make the change.

On the wider mortgage changes announced by the government, he said they amount to a modest increase in risk, but he doesn't think it's material to the near- or long-term prudential health of the banking sector.

The mortgage changes come as overall, the risk outlook for Canadian residential lending sector is looking much better than it was a year ago, said Routledge.

"We have seen some deterioration but has been very gradual and quite manageable … all the evidence right now is that households have managed through this quite well."

OSFI Updates Risks To Financial System, Two Are Most Prominent

Financial Institutions Regulator Sees Elevated Risks Compared To The Spring

By Steve Randall, Wealth Professional, October 03, 2024

https://www.wealthprofessional.ca/news/industry-news/osfi-updates-risks-to-financial-system-two-are-most-prominent/387171?hsmemberId=83982452&tu=&utm_campaign=&utm_medium=20241003&_hsenc=p2ANqtz--SB5PNemK9soqbOH9KU0oBU6MxZumEVYWZv57WzMxBFy8c9oU37P6JcS5H-FFGgqkdnbeB5oEi_NuD3SrHyxW3tbJHuA&_hsmi=327472834&utm_content=&utm_source=

Two key risks have been flagged up by Canada's financial institutions regulator as being potentially more of a problem for the country's financial system than it previously stated.

In an update to its Annual Risk Outlook (ARO) for 2024-2025, the Office of the Superintendent of Financial Institutions (OSFI) says that the four risks it identified in the spring all remain as concerns: real estate secured lending and mortgage risks; wholesale credit risks; funding and liquidity risks; and integrity and security amidst geopolitical uncertainty.

However, two integrity and security risks have intensified: risks to operational resilience and risks related to artificial intelligence.

The regulator acknowledges the benefits to the financial services industry that AI offers, including enhancements to efficiency, customer service, and decision making. But it also highlights risks including increased cybersecurity and third-party risks, heightened fraud and money laundering activities, potential bias and discrimination in decision making, data privacy and quality concerns, elevated model risk, and reputational risk.

The OSC recently warned that AI-enhanced scams pose greater risks to investors than conventional scams.

Regarding operational resilience the update notes Canadian FI's reliance on "a complex network of third parties and technology," which are typically global in reach and increases the potential for exposure to incidents outside Canada.

Addressing the risks
OSFI publishes its annual risk report in the spring but updates in the fall are provided where risks in the financial system substantially evolve.

There are six actions that the regulator will take in response to the rising risks:

- assess institutions' preparedness to manage third-party risks and technology and cyber-related risks
- assess the strength of institutions' business continuity plans, disaster recovery plans, and internal third-party contingency plans
- collect third-party data to increase understanding of systemic concentration risk
- conduct thematic reviews and monitor cyber resilience and third-party risk management of critical outsourced functions
- assess the impact of AI adoption on the risk landscape and strengthen existing guidelines to decrease AI-related risks
- issue an updated Model Risk Management guideline in summer 2025

"OSFI will adapt and respond to intensifying integrity and security risks within the Canadian financial system in a manner consistent with the 2023 change in OSFI's mandate," said Peter Routledge, Superintendent of Financial Institutions. "With the semi-annual update to our 2024-25 Annual Risk Outlook, OSFI announces our supervisory and regulatory responses to intensifying risks related to operational resilience and artificial intelligence."

FSRA Releases Its Final Approach To Principles-Based Regulation

By FSRA, September 5, 2024

https://www.fsrao.ca/announcements/fsra-releases-its-final-approach-principles-based-regulation

FSRA's mission is "public service through dynamic principles-based and outcomes-focused regulation".

We believe this approach will lead to a financial services environment that is innovative, flexible, collaborative and responsive, promoting high standards of business conduct and better protecting the rights and interests of consumers.

To help the sectors better understand and engage with FSRA about principles-based regulation, we are releasing our final principles-based regulation guidance.

As a regulator, we set outcomes for regulated entities and individuals to achieve, which are based on the principles in our statutory objects.

FSRA has also developed a set of framework principles which outline how FSRA will regulate and supervise entities and individuals. Principles-based supervision aims to be constructive, transparent and collaborative.

At FSRA, a principles-based approach helps ensure:

- regulated entities are empowered to decide processes, procedures and cost-saving measures
- Ontario's consumers have access to innovative products and services and can make informed choices for their own financial service needs

The benefits of principles-based regulation include:

- **Promoting Innovation:** FSRA will interpret and apply principles creatively, which means businesses can innovate new ways to achieve regulatory goals, leading to better outcomes for consumers.
- **Flexibility**: Instead of rigid rules, principles-based regulation sets broad principles or goals, allowing businesses to find their own ways to meet them, encouraging innovation and adaptation.
- **Protection**: Consumers are more likely to be protected from harm, as the regulator can adapt to new risks or situations more quickly.

In certain areas, FSRA will need to continue to rely on detailed Rules and prescriptive requirements to ensure adequate consumer protection.

OTHER CAFII MEMBER-RELEVANT NEWS

How Tech Can Help Insurers Tackle Regulatory Compliance

By Sabrina Wilson Robert Walde, Digital Insurance, October 03, 2024

Staying compliant with NAIC requirements can feel like a race against time, since guidance updates come on a quarterly cadence and require businesses to move quickly to make reporting adjustments — often within the same quarter. Guidance updates may even arrive late in the quarter, leaving little time to respond.

Each year, the challenge grows when annual guidance updates arrive. These tend to be larger in scope and require organizations to hustle to make necessary adjustments in time.

Read full article (subscription required): https://www.dig-in.com/opinion/how-tech-can-help-insurers-tackle-regulatory-compliance?utm_campaign=NL_DIG_Morning_Briefing_10042024&position=1&utm_source=newsletter&utm_medium=email&campaignname=NL_DIG_Morning_Briefing_10042024&oly_enc_id=1794I9343067F0V

Online Bank Challenger Koho Financial Raises $190-Million In Debt And Equity To Help Boost Its Lending Capacity

By Clare O'Hara and Sean Silcoff, The Globe and Mail, October 2, 2024

https://www.theglobeandmail.com/business/article-koho-financial-bank-equity-debt/

Online bank challenger Koho Financial Inc. is bolstering its case to become a Schedule 1 Canadian bank by raising $190-million in equity and debt to help boost its loan book.

The new financing package, which was set to be announced Wednesday and includes a $40-million equity raise and $150-million in debt, will help Koho continue to expand the amount it lends to consumers for buy-now-pay-later financing at e-commerce checkouts and to offer lines of credit up to $15,000, travel insurance products and a rent reporting tool to help clients build their credit histories.

Koho chief executive Daniel Eberhard said in an interview that his company had the choice to become profitable with its existing capital, "but this injection allows us to grow faster and expand our lending business, both of which supports our bank licence application."

Koho applied for a bank licence in 2022, and must pass through a three-phase process under Canada's Bank Act to obtain approval. As part of the regulatory process, the Office of the Superintendent of Financial Institutions assesses applications and makes recommendations to the minister of finance, who has the ultimate responsibility for approving the incorporation of a federally regulated financial institution. The company had moved into the second phase of the process earlier this year to become a Schedule 1 bank, which is a wholly domestic institution in Canada that is required to take customer deposits.

The $150-million debt portion of the new offering includes funds from two undisclosed alternative lenders and will be an off-balance sheet credit facility that Koho can tap to expand the amount it can loan to customers.

"We've never really had a credit facility before at Koho; all the lending we have done has been on our balance sheet – meaning it is our own capital. Now, this lets us start to scale and do some larger loans," Mr. Eberhard said.

Koho first came to market with the launch of a mobile app in 2016 that allows users to accumulate savings similar to a traditional high-interest savings account. The account doesn't charge fees for transactions and users can spend funds with a prepaid Mastercard. Koho makes its revenue from the transaction fees that credit-card companies earn from retailers.

In 2022, Koho shifted into lending products that allow users to receive an advance on a portion of their next paycheque. Today, the company has more than 1.7 million customers.

Last year, the company raised close to $300-million in two financing rounds from prominent investors including Portage Ventures, part of Power Corp. of Canada's alternative-investing arm Sagard Holdings ULC.

"One of the toughest things in any fintech company is surpassing $100-million in revenue, and Koho has done that and then quickly exceeded that," Portage chief executive Adam Felesky said in an interview. "That's why it's important for a company to start to get operating leverage out of the business"

While Koho would still only be a fraction of the size of the Big Six Canadian banks, the company serves a niche demographic of customers who are already tapping into multiple products at Koho, Mr. Felesky said.

"Koho knows exactly who their segment is," he added. "And that is the vast majority of Canadians who quite frankly are living paycheque to paycheque."

The equity round was led by returning investor PROPELR Growth – a growth equity financer that was spun out of Round 13 Capital. Other returning investors include Drive Capital, TTV and BDC – and the addition of prominent New York-based Rockefeller Capital.

The company's valuation for this round remained flat from a previous calculation in 2021 at $800-million.

However, that is no small achievement as valuations for many financial technology companies have crashed over the last two years, with some firms seeing figures slashed in half from the peak of the pandemic.

For Koho, investors are drawn to the number of clients the online company is attracting, with more than 70 per cent of them already using the company as their primary bank account.

"Koho has a real shot at being a digitally native new entrant that achieves some scale here," PROPELR Growth managing partner Sanjiv Samant said in an interview. "In Canada, we have a large millennial, Gen Z population and a big immigrant population that are all very digitally savvy. They are used to these types of offerings internationally that we don't have in Canada from the incumbent banks."

Koho isn't the only provider racing to become the first fintech company to secure a bank licence.

In late 2019, Questrade Financial Group Inc. filed an application with OSFI to operate a division under the name Quest Bank (Banque Quest in French).

In January, Questrade's chief executive Edward Kholodenko told The Globe the company was still in the approval process with OSFI and "could see an approval in about 12 months."

When asked for an update on the application, Mr. Kholodenko said in an e-mail to The Globe that the company has "no further comment, at this time, as the process remains before the regulators."

Progress On Improving Board Diversity In Canada Is Slowing

By Dominique Gené, The Globe and Mail, September 26, 2024

The push to add more women to boards of directors is slowing at Canadian companies as diversity initiatives lose momentum, a new report has concluded.

A review of 610 companies shows women held 29.8 percent of a total of 4,860 board seats in 2024, a 1.3-percentage-point increase from a year earlier, according to an annual diversity study by law firm Osler, Hoskin & Harcourt LLP. By comparison, the proportion of women on boards climbed an average of 2.1 percentage points annually between 2015 and 2023.

Women accounted for 38.1 percent of board seats at companies listed in the S&P/TSX Composite Index and 39.7 percent of board seats among the largest companies included in the S&P/TSX 60 Index.

Read full article (Subscription required): https://www.theglobeandmail.com/business/article-board-of-directors-diversity-report/

Change For The Better: The FCA's Evolving Approach To Enforcement

By The Financial Conduct Authority, September 24, 2024

https://www.fca.org.uk/news/speeches/change-better-evolving-approach-enforcement

Speech by Therese Chambers, joint executive director of enforcement and market oversight, delivered at AFME Annual European Compliance and Legal Conference.

You could be forgiven for missing the Department for Transport's summer publication on official taxi and private hire statistics.

Not everyone's ideal summer holiday read, I know.

Buried in the report was the revelation that 20% of Private Hire vehicles in England are a Toyota Prius.

For any of us who've been caught short in a London shower - or just not felt quite brave enough to face the Central Line at rush hour! - that may not come as much of a surprise.

It certainly hasn't escaped the notice of internet sleuths, with entire subreddits devoted to exploring that vital question, 'Why are there so many Toyota Priuses in London?'

But the ubiquitous Prius is just one piece of the puzzle that's seen Toyota grow to become the largest car maker in the world.

Central to the company's success has been the much-lauded 'Toyota Way' of operating, a key part of which is the Japanese philosophy of kaizen. 'Kai' meaning 'change' and 'zen' meaning 'for the better'…. Change for the better.

It's about embracing self-criticism and challenging the status quo…

Adapting and evolving to meet new challenges…

Taking a more efficient approach for better outcomes.

I think we can all learn a little something from Toyota - other car manufacturers are available! - and the philosophy of kaizen.

You could even say that we are applying our own interpretation of kaizen at the FCA:

- We are improving our processes and embracing innovation… intervening earlier, acting faster and with more focus.
- We are taking a targeted, outcomes-based approach… not shying away from tough conversations in pursuit of long-term success.
- In short, we are raising the bar on ourselves… enabling a fair and thriving financial services sector for the good of consumers and the economy.

A hard line on financial crime

Key to securing those positive outcomes is the ongoing fight against financial crime.

Why? Because financial crime does not just hurt individual consumers… It hurts rule-abiding firms – not least in the pocket, by adding costs into the system… And it hurts us all, by damaging the reputation of our markets.

For the UK financial services industry to grow and be competitive, investors and institutions need to have trust in it. And how can we expect them to have that trust, if they don't see system integrity?

That is why reducing and preventing serious harm from financial crime is a focus of our current strategy and will remain a significant pillar in our next, due in 2025.

Enforcement clearly plays a vital role in delivering this aim. Fines, bans and prosecutions are often what the public notice most about our work.

Not surprising when you consider our recent outcomes:

Just this month we fined PWC £15m for failing to alert us to suspected fraudulent activity at London Capital & Finance…

We recently brought charges against 9 so called 'finfluencers' for promoting foreign exchange trading schemes on social media without authorisation…

And we have over 45 people currently facing FCA criminal proceedings, covering offences from fraud to forgery, insider dealing to money laundering.

But enforcement action is not just about dishing out punishment; it's also about educating the whole market on what we expect, and where others have fallen short.

Collaboration

Collaboration - with both firms and other enforcement agencies - plays an important role.

Take money laundering for example. We supervise around 18,000 firms under the Money Laundering Regulations, and anti-money laundering investigations represent a meaningful portion of our enforcement caseload. Around 15%. Banks play a vital role in helping to detect money laundering in the first place – supporting the FCA to act earlier to nip financial crime in the bud.

This is really important work that not only helps us reduce and prevent crime, but plays a bigger part in boosting the perception of the UK as a trusted place to do business. That is something all of us here today benefit from, and I strongly urge banks to keep up that good work with us.

The FCA also maintains strong relationships globally. We recently worked with the French regulator, the AMF, to censure asset manager H2O LLP for failures which had left investors unable to access their funds since 2020. As a result of this international collaboration, we were able to secure €250m in redress for the investors who had lost out.

Closer to home, we worked closely with the PRA in successfully fining Citigroup £61.6m for failures in the firm's systems and controls…Failures that had allowed a trader to erroneously sell US$1.4bn of equities in European markets in May 2022 when they should not have. Thanks to excellent collaboration between the regulators, we were able to successfully settle the case within just 23 months.

And I want to touch on a couple of really important takeaways from that particular case:

First, systems need to be designed with real people in mind. Let's be honest, who hasn't blindly clicked 'Accept' on a pop-up without fully reading it? So controls must be robust: recognising and reflecting human behaviour patterns, constantly reviewed to keep pace with changing market conditions.

Second, let's learn the lessons of the past few years - especially on common issues around risk management. Yes, we live in a fragile macro-economic environment. But we all know that; this is a 'predictable volatility'. We must do better, plan better, using all the tools we now have - data and operational - to their full power.

Data and technology
And data and technology are certainly playing a growing role in our work at the FCA.

I like to remind people that the name of my division is Enforcement and Market Oversight.

While our enforcement work might grab the headlines, behind the scenes our Market Oversight teams are quietly working away, using sophisticated digital tools to monitor the market and detect misconduct in real time. I may be biased, but I think they're the unsung heroes at the FCA!

We have more than doubled our trading data coverage from 500m to around 1 billion records per day, and our systems can interrogate data across multiple asset classes quickly. But of course it's not enough to just have the data. We also need the tools to use it.

That is where our refreshed analytics come in - helping us spot ever more complex patterns, for example involving organised crime groups.

Our Cyber Forensics Unit is equipped with the latest technology and expertise to handle complex digital forensic tasks, and we are improving those capabilities all the time. Going forwards, our approach will be ever more data - and technology - driven, and I'd strongly encourage firms to collaborate with us in this. Because the quicker we can gather accurate information, the quicker we can respond to challenges as they arise... helping us to speed up and stay ahead of the criminals looking to exploit our markets.

Increased pace and focus
Because if we want our financial services sector to be competitive, if we want our economy to grow, we must protect and maintain the UK's strong reputation for integrity. High standards of regulation and effective enforcement are critical to that effort. Visibly holding wrongdoers to account gives confidence to consumers, businesses and investors that the UK is a place where high standards are upheld.

We know that the deterrent effect of enforcement action is greater the closer in time it is to misconduct occurring. The longer it takes for outcomes to be determined, the longer it takes for us to send important signals to the markets.
Our data tells us that investigations closed in 2023/24 took an average of 42 months to complete. There are good reasons for these timelines: cases are often highly complex and we, like all enforcement agencies around the world, are adapting to the ever-growing amount of digital evidence that must be analysed. Each case is about 60-70,000 documents! But we believe we can improve on those timelines. We have made significant advances already: 24 outcomes under our belt so far for 2024, compared to 26 for the whole of 2023.

This includes an investigation into Coinbase Group for breaking restrictions and allowing thousands of high-risk customers to make cryptoasset transactions totalling around USD$226m. After an investigation completed in just 16 months, they received a multimillion pound fine.

We have seen some 'firsts' in the crypto space, such as prosecuting an individual for running a network of illegal crypto ATMs – a thorough and focused investigation which took 15 months to complete.

We closed 60 operations in the financial year 2023/24, compared to 38 in the previous year - more than 25% of these were less than 2 years old.

And as I speak to you today, my team is actively negotiating settlements in cases where it has taken less than 2 years to complete the investigation.

I am encouraged by these green shoots and we are committed to conducting our investigations at greater pace. Hand in hand with increasing our pace, will be streamlining our caseload and focusing on investigations better aligned to our strategic priorities.

But let me be clear: a reduction in the number of investigations does not mean a reduction in effort. Quite the opposite. It's about making a conscious decision to identify cases where we believe there may be conduct creating the greatest risk of harm, and where an investigation is most likely to drive the greatest deterrence. Neither does it mean going for the low hanging fruit.

We will continue to investigate potential misconduct by individuals and firms, and will never shy away from challenging and complex investigations. So, whilst we may be opening fewer investigations, we expect to see a greater number of outcomes and a greater impact from our enforcement activity.

Transparency
Now, it's not surprising that accelerating our investigations and adopting a laser focus on cases we pursue has been widely welcomed. But the lightning rod has clearly been proposals for greater transparency on who we are investigating and why.

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While consumers groups, whistleblowers and some other regulators welcomed the prospect of greater transparency, the companies we regulate were overwhelmingly against.

So first, let me assure you all: we are listening. We have analysed each and every one of the more than 130 responses to our consultation. And we are not going to rush this.

Amongst the strong feelings on all sides, I want to return for a moment to what it is we're trying to solve, and why.

At the moment, bar 'exceptional circumstances', we are silent during the period between looking into a potential issue and reaching an outcome. What that has meant in practice, is that 'exceptional circumstances' has usually translated into 'computer says no' in response to requests for further information. We put forward a proposal for greater transparency on our investigations into firms, where it was in the public interest.

We did so on the basis that appropriate openness could:

- support consumer protection by giving them information that may support their decision-making
- improve the market by highlighting concerning conduct, allowing others to course correct sooner, lessening risk
- assure those who have potentially vital evidence, including whistleblowers, that we're looking into concerns and our door is open

What's more, it could address the odd situation we find ourselves in, where a fellow UK regulator can announce an investigation, but we would be unlikely to be able to announce - also in a factual and measured way - that we too were running enquiries.

That happened in the recent fine for PwC; the FRC was able to announce an investigation running parallel to ours, around 2 years before we confirmed our findings (and that our investigation had existed at all).

But that is not to say our proposals indicated a sudden switch to a blanket 'computer says yes' approach. We are not proposing moving from publicity in zero cases now, to 100% of cases in the future. Rather, a case-by-case approach following assessment of clearly defined criteria - including consideration of the potential impact on the firm and market. But we heard loud and clear that the criteria we consulted on were too high level and lacked specificity.

This autumn, we will intensify our engagement – meeting with trade associations, firms, those on all sides of the debate – exploring how we can develop our proposals. As part of this, we recognise the desire for greater definition on any new public interest test.

Later this autumn we plan to provide greater detail on how it could work in practice. To bring this to life, we will publish case studies examining how the criteria might apply and what announcements could look like, as well as more information on the numbers of cases that might be affected.

We heard clearly too the concern that firms felt they would not have sufficient time to make representations, and will respond to the constructive feedback we've received on this point. Allowing firms time to provide their views on whether, what and when we announce, will be part of any proposal we take forward. So I want to reassure everyone here today that we have heard the strength of feeling on this – from all sides – and that this is very much an ongoing conversation.

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Since the consultation closed in April, we have been reflecting on the range of serious concerns raised and working to build understanding. We do think the case for a degree more transparency remains strong. But it needs to be seen within the vital context of a focused number of cases likely to deliver the greatest deterrent, and delivered much faster.

We are committed to achieving this in the right way for UK consumers and markets, so we won't be rushing into any decisions. We want the right solutions, not the quickest ones. And rest assured, as we work to find those solutions, we will be mindful of all our objectives – including supporting the international competitiveness of the UK's financial services and the medium to long term growth of the economy.

Conclusion
So the FCA's approach to enforcement is changing – but this is not change for change's sake, or change that should be feared.

It's change to increase public confidence in financial services.

It's change for the better. It's kaizen.

But kaizen can't just be a one-person job; it requires cooperation and commitment from all of us here today, across industry and regulators…to stop market abuse, keep our markets clean, and to build trust.

This is how we will attract talent to our sector, bring in investment to our shores, and grow our economy.

This is how we will all prosper

Embedded Insurance: Challenges And Opportunities

Embedded Insurance Can Delight Customers, But Outdated Systems And Data Privacy Concerns Pose Hurdles To Overcome.

By Abishek Bhat, Insurance Thought Leadership, September 5, 2024

https://www.insurancethoughtleadership.com/customer-experience/embedded-insurance-challenges-and-opportunities

For every business, customer satisfaction isn't just a goal—it's the foundation for building long-term relationships and ensuring success. Merchants are finding new ways to satisfy their customers, and embedded insurance is one of them. It can delight customers by offering insurance right alongside merchants' products.

But while businesses are excited over the growth potential of embedded insurance, there's one industry that's feeling the pressure: insurance. For insurers and insurtechs, the opportunities and challenges of embedded insurance are neck and neck.

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To embrace the shift, they must face these hurdles head-on.

Personalized Customer Experience

Merchants can ace customer experience with embedded insurance, but for insurers, it's not so easy. Here's what's holding them back:

1. Outdated UI/CX

While the world is busy building modern apps, many insurers are still stuck with complex systems due to a lack of resources and complicated regulations. Consumers will have a smooth UI experience until they are redirected to the insurance part. Jargon-filled insurance policies and complex claim processes often frustrate customers. Though insurers have started to make a shift, there's still a lot to be done. Until then, they can use the following strategies to ensure worthy customer experiences:

- *Minimal Integration*: Use the merchant's platform to show basic policy information and claim status. For anything complex, redirect to the insurer's website.
- *Dedicated Customer Support*: Support customers in navigating the complex platform through email and chat.
- *Third-party Integration*: Integrate with third-party digital tools to help overcome the outdated UI/CX hurdle.

Consider a customer renting a car online. The process is quick and seamless, but when the insurance part hits, the experience often becomes fragmented. Insurers can make a difference by letting the rental company offer only basic insurance details online and assisting customers with complex claim processes. Insurers like Geico and Lemonade have already started to improve their customer service with advanced support systems and third-party AI chatbots. Similar solutions can help customers navigate complex processes and enhance their experience.

2. Experience Through Merchants

When insurance products are bundled with the merchant's, ensuring a seamless customer experience falls on insurers. They need to establish clear communication with the merchant to avoid misalignment while framing the terms and conditions for the product. Insurers can improve the customer experience by involving merchants in all their processes:

- *Merchant Support*: Have the merchant handle customer inquiries and limit direct customer interaction. For instance, Tesla supports its insurance provider, State National Insurance, by handling most of the insurance queries on Tesla's platform.
- *Co-Branded Marketing:* Initiate joint marketing efforts to build brand awareness and trust.
- *Data-Sharing Agreements*: Maintain customer insights by creating data-sharing agreements with the merchants.

If you are a travel insurer, you can better use embedded insurance by partnering with merchants like online booking platforms. Imagine a customer booking a flight and being presented with a personalized insurance offer that covers everything from trip cancellations to lost luggage, all without leaving the booking site. This not only enhances the customer experience but also increases the likelihood of a purchase. Additionally, promoting products together with the booking platform makes the insurance offering an extension of the travel booking process, which can help drive more sales.

3. Data Privacy and Customer Knowledge

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As embedded insurance involves data-sharing between merchant and insurer, it's the insurer's responsibility to safeguard customer data and educate customers about the terms and conditions. This can help avoid discrepancies in their claim journey. Here's how insurers can do it:

- *Regulatory Compliance:* Adhere to data privacy regulations such as GDPR and CCPA.
- *Standard Privacy Policy:* Provide clear privacy policies to customers that outline data collection and usage practices.
- *Necessary Customer Education:* Offer all the must-know information about the insurance products on the merchant's platform.

Transparency and trust are crucial to customer satisfaction. Imagine the impact of a seamless integrated experience where a customer is provided with all the necessary data about privacy policies and the risks associated with it while booking a flight ticket or getting employee-provided health insurance. This level of transparency not only builds customer loyalty but also strengthens the brand's reputation in an increasingly competitive market. Insurers can enhance the customer experience by keeping them informed, protected, and engaged about how their data is being used.

Enhancing CX With New Insurance Models

The advent of connected devices such as wearables, IoT, and smart home devices has opened a new era of possibilities for the insurance industry. It has led to the introduction of new insurance models that attract users to move from the old way of paying annual premiums. Data generated through connected devices further helps insurers cater to more specific and personalized products.

1. On-Demand Insurance

Is it possible to have insurance only when you need it, no matter how brief its usage? On-demand insurance offers this flexible and cost-effective solution by allowing you to activate coverage exactly when you require it. Consider a taxi service where the service provider offers insurance coverage along with the rent for that specific trip rather than requiring payment for an annual policy.

This model provides the convenience of using insurance for immediate needs and helps avoid unnecessary costs for coverage you don't use. Uber offers its customers and drivers the option to purchase insurance coverage on-demand. This means that both parties can use insurance protection only during the ride. Uber leverages connected devices like GPS and telematics to accurately track their vehicles, ensuring that both riders and drivers have protection precisely when they need it.

2. Contextual Insurance

Ever thought about insurance that adapts to your real-time needs? Contextual insurance makes this a reality by providing coverage based on the user's activities. Imagine you've just installed a smart home system that can analyze data like occupancy patterns, appliance use, and even environmental conditions. This data offers a clearer picture of potential risks in your home, allowing your insurance coverage to adjust.

This approach ensures that you're not paying for unnecessary coverage but are instead getting it precisely when you need it. Google Nest's extended warranty is a prime example of contextual insurance. At the time of purchase, you're offered a plan that not only covers accidental damage but also uses data from your thermostat to offer protection to your home.

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3. Pay-Per-Use Model
Why should consumers pay heavy premiums for products they use occasionally? The pay-per-use model offers the flexibility to pay for insurance only when they use the product. It integrates insurance into existing services or products and provides the flexibility to use it only when needed.

Consider buying high-tech products. Merchants offer a standard warranty period for the product, and if customers wish, they can opt for an extended warranty. This extended insurance coverage can also be applied to specific parts of the product, perhaps only for the motor of a washing machine.

The First Step
Customer experience is not just about keeping customers happy—it's about acquiring and retaining them with minimal costs. That's why many businesses are shifting toward embedded insurance. To stay in line, insurers are relentlessly working to overcome challenges in embedded insurance and achieve the goal of delivering personalized customer experiences. The emergence of new insurance models is a clear sign that they are on the right track.

The future of insurance is undoubtedly embedded, and current progress will benefit insurers, merchants, and, most importantly, customers.

UPCOMING CAFII RELEVANT WEBINARS & EVENTS; AND RELATED EDUCATION CONTENT

Want To Learn More About FSRA's Principles-Based Approach To Regulation? Join Us

https://www.fsrao.ca/events/want-learn-more-about-fsras-principles-based-approach-regulation-join-us

When: October 7, 2024
Time: 11:00 AM - 12:00 PM America/Toronto
Where: Virtual.

Join Ontario's financial services regulator (FSRA) to learn more about its Principles-based approach to regulation.

Hosted by Jordan Solway, Executive Vice President, Legal and Enforcement, the webinar will cover:

- what it means to be a Principles-based regulator
- how Principles-based Regulation impacts consumers and FSRA's regulated sectors
- overview of FSRA's final Principles-based Regulation Guidance
- opportunity for attendees to ask questions
- This webinar will be recorded and posted to FSRA's website.

For all who cannot attend but are interested in the content, CAFII's Research Analyst Robyn Jennings will be attending and her summary of the webinar will be included in CAFII's October Regulatory Update.

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Insurance Council Of BC 2024 Regulatory Update

https://us06web.zoom.us/webinar/register/WN_z3kCcqj8QbqqFftduWmG2Q#/registration

When: October 28, 2024
Time: 12pm-1pm PDT
Where: Zoom

Please join us for the Insurance Council of BC 2024 Regulatory Update. During this event our recent Chair Donna Thorne (2023-2024) and CEO Janet Sinclair will provide an update on our regulatory activities, priorities for our organization, key initiatives of interest to our licensees, and what we are planning for the future. Stay informed about important topics, such as:

An overview of regulatory activities and trends from 2023/2024; such as updates to Council Rules, new Insurance Council courses and more;

- Updates on major initiatives such as the Restricted Insurance Agency Licensing for sales of incidental insurance, general insurance competency and qualification standards framework, and our research on emerging technology in the insurance industry;
- Trends and analysis from our audit program and how we are using this information to develop effective regulation and support licensees.

Please note this informational session is not eligible for CE credit.

Register Here!

Space is limited, so secure your spot now!

Reminder emails, including the link to join the webinar, will be sent prior to the event. If you are unable to attend, please cancel your registration to allow others to use the space.

If you have any questions about the event or registration, please contact events@insurancecouncilofbc.com.